



March 16, 2009

AGENDA ITEM 5d

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** General Pension Consultant Services Spring-Fed Pool Request for Proposal – Selection of Finalists/Contract Awards
- II. PROGRAM:** CalPERS Total Fund
- III. RECOMMENDATION:**
 - 1) Approve the staff-recommended finalists for the General Pension Consultant Spring-Fed Pool
 - 2) Forego the optional Investment Committee interviews
 - 3) Approve the award of contracts to all finalists

IV. ANALYSIS:

Background

On September 15, 2008, the Investment Committee approved the issuance of a Request for Proposal (RFP) for the creation of a General Pension Consultant Services Spring-Fed Pool.

To develop the RFP scope of services, staff conducted extensive research of best practices in the use of general pension consultants throughout the investment community. Based on this research and to support the growth and complexity of the CalPERS investment program, staff proposed the expansion and enhancement of the scope of services of the general pension consultant pool.

The proposed service structure consists of six specialized areas of expertise: (1) General Investment Analysis and Research, (2) Organizational and Structural Analysis, (3) Performance Analysis and Benchmarks, (4) Asset Allocation, (5) Risk Management and Risk Budgeting, and (6) Specialty Consulting. This structure provides the Investment Office both general investment consulting services and key functional investment services with the maximum flexibility in choosing consulting resources for any anticipated need. The RFP specified that candidates for the pool could submit a single proposal for all or for one or more of the service areas.

On October 20, 2008, the Investment Committee approved the proposed summary of services submitted by staff. After approval of the services, staff issued the RFP on November 25, 2008. To increase the number and types of firms submitting proposals, staff advertised in the Pensions and Investments investment journal and California Contracts Register, and engaged in outreach efforts through the Investment Office Diversity Consultants. CalPERS received seventeen (17) proposals by the January 21, 2009 final filing deadline. One (1) proposer submitted a withdrawal from the RFP process.

As specified in the RFP, an evaluation committee consisting of Investment Office staff scored the sixteen (16) remaining proposals. Staff combined Technical Proposal scores with Fee Proposal scores to determine the finalists to be recommended to the Investment Committee. The RFP states that the proposers having the highest scoring proposals, as determined by CalPERS, will be recommended as finalists to the Investment Committee.

Recommended Finalists

Based on the results of the RFP evaluation process, staff recommends a total of twelve (12) firms, listed below by service area, as finalists for the General Pension Consultant Services Spring-Fed Pool. Ten (10) of the recommended firms are current Investment Office consultants. Cutter Associates, Inc. and Rogerscasey are recommended as new additions. All finalists have expertise in the areas in which they were selected.

General Investment Analysis and Research	
<ul style="list-style-type: none">• Callan Associates, Inc.• Mercer Investment Consulting, Inc.• Pension Consulting Alliance, Inc.• R.V. Kuhns & Associates, Inc.	<ul style="list-style-type: none">• Rogerscasey• Strategic Investment Solutions, Inc.• Wilshire Associates, Inc.

Organizational and Structural Analysis	
<ul style="list-style-type: none"> • Brock Capital Group LLC • Callan Associates, Inc. • Mercer Investment Consulting, Inc. • R.V. Kuhns & Associates, Inc. 	<ul style="list-style-type: none"> • Strategic Investment Solutions, Inc. • Wilshire Associates, Inc.

Performance Analysis and Benchmarks	
<ul style="list-style-type: none"> • Callan Associates, Inc. • Mercer Investment Consulting, Inc. • Pension Consulting Alliance, Inc. • R.V. Kuhns & Associates, Inc. 	<ul style="list-style-type: none"> • Rogerscasey • Strategic Investment Solutions, Inc. • Wilshire Associates, Inc.

Asset Allocation	
<ul style="list-style-type: none"> • Callan Associates, Inc. • Mercer Investment Consulting, Inc. • Pension Consulting Alliance, Inc. • R.V. Kuhns & Associates, Inc. 	<ul style="list-style-type: none"> • Rogerscasey • Strategic Investment Solutions, Inc. • Wilshire Associates, Inc.

Risk Management and Risk Budgeting	
<ul style="list-style-type: none"> • Callan Associates, Inc. • Mercer Investment Consulting, Inc. • Rogerscasey 	<ul style="list-style-type: none"> • Strategic Investment Solutions, Inc. • Wilshire Associates, Inc.

Specialty Consulting	
<ul style="list-style-type: none"> • Brock Capital Group LLC • Callan Associates, Inc. • Cutter Associates, Inc. • Le Plastrier Consulting Group, Inc. • Meketa Investment Group, Inc. • Mercer Investment Consulting, Inc. 	<ul style="list-style-type: none"> • Pacific Community Ventures • Pension Consulting Alliance, Inc. • R.V. Kuhns & Associates, Inc. • Strategic Investment Solutions, Inc. • Wilshire Associates, Inc.

Staff has prepared consultant profiles for each of the finalists which are included in Attachment 1.

If the Investment Committee approves the staff-recommended finalists, contracts for the selected firms will be effective July 1, 2009. If CalPERS decides to use the pool to perform a special project, one or more of the firms within the pool may be asked to prepare a proposal describing their approach, relevant experience or expertise, the staff assigned to the project, and the proposed fee for the services.

Investment Committee Optional Interviews

The RFP states that the Investment Committee may or may not choose to interview each finalist recommended by the evaluation committee. If the Investment Committee chooses to interview the finalists, all recommended finalists will be notified to appear at the April 20, 2009 Investment Committee meeting for an interview.

Recommendations

Staff recommendations are as follows:

- 1) Approve the staff-recommended finalists for the General Pension Consultant Spring-Fed Pool.
- 2) Forego the optional Investment Committee interviews.
- 3) Approve the award of contracts to all finalists.

V. STRATEGIC PLAN:

This agenda item is consistent with the Strategic Plan:

- 1) Goal VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits, and second, to minimize and stabilize contributions.
- 2) Goal IX, achieve long-term, risk-adjusted returns.

VI. RESULTS/COSTS:

The Investment Office's budget includes funds for the General Pension Consultant Spring-Fed Pool. Staff anticipates that the budgeted amount may need to increase slightly for the new spring-fed pool. However, until the composition of the pool is known, an amount cannot be estimated. Staff will bring funding requests forward during the annual budget process if additional resources are needed.

Sebron A. Humphrey
Staff Services Manager
Policy and Business Support

Kami Niebank
Division Chief
Policy and Business Support

Kenneth W. Marzion
Interim Chief Operating Investment Officer

Joseph A. Dear
Chief Investment Officer